

Village of Lawton

Van Buren County, Michigan

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Year ended February 29, 2008

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INDEPENDENT AUDITORS' REPORT

To the Members of the Village Council
Village of Lawton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, and the aggregate remaining fund information of the Village of Lawton, Michigan, as of February 29, 2008, and for the year then ended, which collectively comprise the Village of Lawton, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Village of Lawton, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, and the aggregate remaining fund information of the Village of Lawton, Michigan, as of February 29, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As disclosed in note 14, the Village recorded a prior period adjustment to correct its method of accounting for its liability for compensated absences.

The budgetary comparison schedules, listed in the contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village of Lawton, Michigan, has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.



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Members of the Village Council
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lawton, Michigan's basic financial statements. The accompanying supplementary data is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

July 31, 2008

BASIC FINANCIAL STATEMENTS

Village of Lawton
STATEMENT OF NET ASSETS
February 29, 2008

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 1,261,739	\$ 660,158	\$ 1,921,897
Receivables	185,309	71,450	256,759
Inventory	-	50,376	50,376
Total current assets	<u>1,447,048</u>	<u>781,984</u>	<u>2,229,032</u>
Noncurrent assets:			
Capital assets not being depreciated - land	217,843	239,375	457,218
Capital assets, net of accumulated depreciation	<u>1,201,786</u>	<u>2,739,726</u>	<u>3,941,512</u>
Total noncurrent assets	<u>1,419,629</u>	<u>2,979,101</u>	<u>4,398,730</u>
Total assets	<u>2,866,677</u>	<u>3,761,085</u>	<u>6,627,762</u>
LIABILITIES			
Current liabilities:			
Payables	-	11,600	11,600
Customer deposits	-	34,745	34,745
Current portion of long-term obligations	-	90,000	90,000
Total current liabilities	-	136,345	136,345
Noncurrent liabilities - long-term obligations	<u>50,600</u>	<u>1,150,000</u>	<u>1,200,600</u>
Total liabilities	<u>50,600</u>	<u>1,286,345</u>	<u>1,336,945</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,419,629	1,727,501	3,147,130
Restricted for:			
Public safety	10,401	-	10,401
Public works	466,122	-	466,122
Recreation and culture	169,154	-	169,154
Unrestricted	<u>750,771</u>	<u>747,239</u>	<u>1,498,010</u>
Total net assets	<u>\$ 2,816,077</u>	<u>\$ 2,474,740</u>	<u>\$ 5,290,817</u>

See notes to the financial statements

Village of Lawton
STATEMENT OF ACTIVITIES
Year ended February 29, 2008

		<u>Program revenues</u>	
		<u>Charges for</u>	<u>Operating</u>
	<u>Expenses</u>	<u>services</u>	<u>grants and</u>
			<u>contributions</u>
Functions/Programs			
Governmental activities:			
Legislative	\$ 9,209	\$ -	\$ -
General government	374,911	37,882	-
Public safety	317,880	8,688	4,370
Public works	225,653	-	184,836
Recreation and culture	125,043	20,748	79,977
Community and economic development	<u>12,857</u>	<u>1,025</u>	<u>-</u>
Total governmental activities	1,065,553	68,343	269,183
Business-type activities:			
Water and sewer	<u>508,063</u>	<u>519,422</u>	<u>-</u>
Totals	<u>\$ 1,573,616</u>	<u>\$ 587,765</u>	<u>\$ 269,183</u>

General revenues:
Property taxes
State shared revenue
Franchise fees
Interest income

Total general revenues

Change in net assets

Net assets - beginning (as restated)

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (9,209)		\$ (9,209)
(337,029)		(337,029)
(304,822)		(304,822)
(40,817)		(40,817)
(24,318)		(24,318)
<u>(11,832)</u>		<u>(11,832)</u>
 <u>(728,027)</u>		 <u>(728,027)</u>
	\$ <u>11,359</u>	<u>11,359</u>
<u>(728,027)</u>	<u>-</u>	<u>(716,668)</u>
 588,998	 -	 588,998
198,293	-	198,293
18,198	-	18,198
<u>40,658</u>	<u>20,205</u>	<u>60,863</u>
<u>846,147</u>	<u>20,205</u>	<u>866,352</u>
 118,120	 31,564	 149,684
<u>2,697,957</u>	<u>2,443,176</u>	<u>5,141,133</u>
<u>\$ 2,816,077</u>	<u>\$ 2,474,740</u>	<u>\$ 5,290,817</u>

See notes to the financial statements

Village of Lawton
BALANCE SHEET - governmental funds
February 29, 2008

	<u>Major funds</u>			<u>Nonmajor fund</u>	<u>Total governmental funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Library</u>	<u>Local Street</u>	
ASSETS					
Cash	\$ 609,687	\$ 348,451	\$ 139,043	\$ 90,123	\$ 1,187,304
Receivables	124,195	20,158	33,566	7,390	185,309
Total assets	<u>\$ 733,882</u>	<u>\$ 368,609</u>	<u>\$ 172,609</u>	<u>\$ 97,513</u>	<u>\$ 1,372,613</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Deferred revenue	\$ 82,502	\$ -	\$ 3,455	\$ -	\$ 85,957
Fund balances:					
Reserved for:					
Criminal training programs	10,035	-	-	-	10,035
Drug enforcement programs	366	-	-	-	366
Unreserved	640,979	368,609	169,154	-	1,178,742
Unreserved reported in nonmajor - special revenue fund	-	-	-	97,513	97,513
Total fund balances	<u>651,380</u>	<u>368,609</u>	<u>169,154</u>	<u>97,513</u>	<u>1,286,656</u>
Total liabilities and fund balances	<u>\$ 733,882</u>	<u>\$ 368,609</u>	<u>\$ 172,609</u>	<u>\$ 97,513</u>	<u>\$ 1,372,613</u>
Total fund balances - all governmental funds					\$ 1,286,656
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:					
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the funds.					1,326,485
Certain assets used in <i>governmental activities</i> are not available to pay for current-period expenditures and, therefore, are deferred in the funds.					85,957
Compensated absences are not due and payable in the current period and are not reported in the funds.					(50,600)
An internal service fund is used by management to charge costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in <i>governmental activities</i> in the statement of net assets.					<u>167,579</u>
Net assets of <i>governmental activities</i> (page 5)					<u>\$ 2,816,077</u>

See notes to the financial statements

Village of Lawton

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds

Year ended February 29, 2008

	Major funds			Nonmajor fund	Total governmental funds
	General	Major Street	Library	Local Street	
REVENUES					
Property taxes	\$ 557,333	\$ -	\$ 35,597	\$ -	\$ 592,930
Licenses and permits	26,744	-	-	-	26,744
State grants	208,112	112,214	1,983	41,142	363,451
Contributions from local units	26,031	-	74,254	-	100,285
Charges for services	28,109	-	-	-	28,109
Fines and forfeitures	942	-	18,673	-	19,615
Interest and rentals	20,315	14,734	4,774	3,287	43,110
Other	1,892	-	5,814	-	7,706
Total revenues	<u>869,478</u>	<u>126,948</u>	<u>141,095</u>	<u>44,429</u>	<u>1,181,950</u>
EXPENDITURES					
Legislative	9,209	-	-	-	9,209
General government	361,529	-	-	-	361,529
Public safety	306,438	-	-	-	306,438
Public works	120,730	102,734	-	97,426	320,890
Community and economic development	12,857	-	-	-	12,857
Recreation and culture	20,779	-	106,369	-	127,148
Capital outlay	14,062	-	3,145	-	17,207
Total expenditures	<u>845,604</u>	<u>102,734</u>	<u>109,514</u>	<u>97,426</u>	<u>1,155,278</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>23,874</u>	<u>24,214</u>	<u>31,581</u>	<u>(52,997)</u>	<u>26,672</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	35,000	35,000
Transfers out	(35,000)	-	-	-	(35,000)
Total other financing sources (uses)	<u>(35,000)</u>	<u>-</u>	<u>-</u>	<u>35,000</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>(11,126)</u>	<u>24,214</u>	<u>31,581</u>	<u>(17,997)</u>	<u>26,672</u>
FUND BALANCES - BEGINNING	<u>662,506</u>	<u>344,395</u>	<u>137,573</u>	<u>115,510</u>	<u>1,259,984</u>
FUND BALANCES - ENDING	<u>\$ 651,380</u>	<u>\$ 368,609</u>	<u>\$ 169,154</u>	<u>\$ 97,513</u>	<u>\$ 1,286,656</u>

See notes to the financial statements

Village of Lawton

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - *governmental funds* (Continued)**

Year ended February 29, 2008

Net change in fund balances - total governmental funds (page 8)	\$ 26,672
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:	
Capital assets:	
Current year additions	153,462
Provisions for depreciation	(50,078)
Net change in deferred revenue	1,723
Net change in compensated absences	(10,800)
Net loss of the internal service fund is reported with <i>governmental activities</i>	<u>(2,859)</u>
Change in net assets of <i>governmental activities</i> (page 6)	<u>\$ 118,120</u>

See notes to the financial statements

Village of Lawton
STATEMENT OF NET ASSETS - proprietary funds
February 29, 2008

	<u><i>Business-type activities</i></u>	<u><i>Governmental activities</i></u>
	<u><i>Water and sewer</i></u>	<u><i>Internal service</i></u>
ASSETS		
Current assets:		
Cash	\$ 660,158	\$ 74,435
Receivables	71,450	-
Inventory	<u>50,376</u>	<u>-</u>
Total current assets	<u>781,984</u>	<u>74,435</u>
Noncurrent assets:		
Capital assets not being depreciated - land	239,375	-
Capital assets, net of accumulated depreciation	<u>2,739,726</u>	<u>93,144</u>
Total noncurrent assets	<u>2,979,101</u>	<u>93,144</u>
Total assets	<u>3,761,085</u>	<u>167,579</u>
LIABILITIES		
Current liabilities:		
Payables	11,600	-
Customer deposits	34,745	-
Current portion of long-term obligation	<u>90,000</u>	<u>-</u>
Total current liabilities	136,345	-
Noncurrent liabilities - long-term obligation	<u>1,150,000</u>	<u>-</u>
Total liabilities	<u>1,286,345</u>	<u>-</u>
NET ASSETS		
Investment in capital assets, net of related debt	1,727,501	93,144
Unrestricted	<u>747,239</u>	<u>74,435</u>
Total net assets	<u>\$ 2,474,740</u>	<u>\$ 167,579</u>

See notes to the financial statements

Village of Lawton**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - *proprietary funds****Year ended February 29, 2008*

	<i>Business-type activities</i>	<i>Governmental activities</i>
	<i>Water and sewer</i>	<i>Internal service</i>
OPERATING REVENUES		
Charges for services:		
Public utility fees	\$ 517,560	\$ -
Equipment rental	-	105,765
Total operating revenues	517,560	105,765
OPERATING EXPENSES		
Sewer	222,850	-
Water	160,253	-
Motor pool	-	79,180
Depreciation	96,947	31,626
Total operating expenses	480,050	110,806
Operating income (loss)	37,510	(5,041)
NONOPERATING REVENUES (EXPENSES)		
Connection fees	1,862	-
Interest revenue	20,205	2,182
Interest expense	(28,013)	-
Net nonoperating revenues (expenses)	(5,946)	2,182
CHANGES IN NET ASSETS	31,564	(2,859)
NET ASSETS - BEGINNING	2,443,176	170,438
NET ASSETS - ENDING	\$ 2,474,740	\$ 167,579

See notes to the financial statements

Village of Lawton
STATEMENT OF CASH FLOWS - proprietary funds
Year ended February 29, 2008

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Water and sewer</u>	<u>Internal service</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 513,248	\$ 105,765
Payments to vendors and suppliers	(298,682)	(53,155)
Payments to employees	(83,806)	(26,025)
Net cash provided by operating activities	<u>130,760</u>	<u>26,585</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Connection fees	1,862	-
Proceeds from sale of capital assets	-	-
Acquisition of capital assets	(16,465)	(24,356)
Principal payments on capital debt	(90,000)	-
Interest payments on capital debt	(28,914)	-
Net cash used in capital and related financing activities	<u>(133,517)</u>	<u>(24,356)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>20,205</u>	<u>2,182</u>
NET INCREASE IN CASH	17,448	4,411
CASH - BEGINNING	<u>642,710</u>	<u>70,024</u>
CASH - ENDING	<u>\$ 660,158</u>	<u>\$ 74,435</u>

See notes to the financial statements

Village of Lawton

STATEMENT OF CASH FLOWS - proprietary funds (Continued)

Year ended February 29, 2008

	<u><i>Business-type activities</i></u>	<u><i>Governmental activities</i></u>
	<u><i>Water and sewer</i></u>	<u><i>Internal service</i></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 37,510	\$ (5,041)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	96,947	31,626
Increase in receivables	(4,312)	-
Increase in customer deposits	615	-
	<u>130,760</u>	<u>26,585</u>
Net cash provided by operating activities	<u>\$ 130,760</u>	<u>\$ 26,585</u>

See notes to the financial statements

Village of Lawton
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Village of Lawton, Michigan (Village), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The accompanying financial statements present only the Village. There are no component units, entities for which the Village is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the use of allocated state gas and weight taxes used for the maintenance and construction of major streets within the Village.
- The Library Fund accounts for the operations of a public library within the Village. Revenues are primarily derived from local unit contributions, penal fines, and property taxes.

The Village reports the following major proprietary fund:

- The Water and Sewer Fund accounts for the activities of the Village's water distribution system and sewage collection system and treatment plant.

Additionally, the Village reports the following fund type:

- The Motor Vehicle Pool Fund, an internal service fund, accounts for vehicle and equipment management services provided to other departments of the Village on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash consists of cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible, and all are due within one year.

iii) Inventory of supplies:

Supplies inventory is stated at cost (as determined on the first-in, first-out basis).

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sewer and water systems, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$1,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets of government activities either retroactively to June 15, 1980, or prospectively. The Village has elected to account for its infrastructure assets prospectively, beginning March 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	20 years
Furniture, fixtures, and equipment	5 - 10 years
Vehicles	5 years
Infrastructure	50 years

v) Compensated absences:

It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Village. Vested compensated absences are accrued when earned in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

vi) Property tax revenue recognition:

The Village property tax is levied each July 1 on the assessed values as of December 31 of the prior year. Village property taxes are recognized when levied. Taxes are payable to the Village from July 1 to March 1, at which time the uncollected portion is reimbursed to the Village by the Van Buren County revolving tax fund.

vii) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Village's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year. There were no budget variances during the current fiscal year.

NOTE 3 - CASH:

The Village's cash, as presented in the accompanying financial statements, is as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
Deposits	\$ 1,261,739	\$ 660,158	\$ 1,921,897

State statutes and the Village's investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Village's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Village will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At February 29, 2008, \$1,854,594 of the Village's bank balances of \$1,955,344 was exposed to custodial credit risk because it was uninsured.

The Village believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

Receivables as of year end of the Village's funds were as follows. All are fully collectible and due within one year.

	<i>Property taxes</i>	<i>Accounts</i>	<i>Inter- governmental</i>	<i>Totals</i>
Governmental funds:				
General Fund	\$ 82,502	\$ 6,639	\$ 35,054	\$ 124,195
Major Street Fund	-	-	20,158	20,158
Library Fund	33,566	-	-	33,566
Other governmental	-	-	7,390	7,390
Totals	\$ 116,068	\$ 6,639	\$ 62,602	\$ 185,309
Proprietary funds:				
Water and Sewer Fund	\$ -	\$ 71,450	\$ -	\$ 71,450

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended February 29, 2008, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 217,843	\$ -	\$ -	\$ 217,843
Capital assets being depreciated:				
Vehicles	185,074	24,356	-	209,430
Land improvements	102,686	-	-	102,686
Furniture, fixtures, and equipment	537,175	35,207	-	572,382
Infrastructure	367,726	-	-	367,726
Buildings and improvements	825,924	118,255	-	944,179
Subtotal	2,018,585	177,818	-	2,196,403
Less accumulated depreciation for:				
Vehicles	(137,013)	(18,129)	-	(155,142)
Land improvements	(46,361)	(4,574)	-	(50,935)
Furniture, fixtures, and equipment	(441,142)	(27,108)	-	(468,250)
Infrastructure	(6,509)	(16,406)	-	(22,915)
Buildings and improvements	(281,888)	(15,487)	-	(297,375)
Subtotal	(912,913)	(81,704)	-	(994,617)
Total capital assets being depreciated, net	1,105,672	96,114	-	1,201,786
Governmental activities capital assets, net	\$ 1,323,515	\$ 96,114	\$ -	\$ 1,419,629

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Water and Sewer Fund:				
Capital assets not being depreciated - land	\$ 239,375	\$ -	\$ -	\$ 239,375
Capital assets being depreciated:				
Collection and distribution system	4,139,308	16,465	-	4,155,773
Equipment	94,218	-	-	94,218
Subtotal	4,233,526	16,465	-	4,249,991
Less accumulated depreciation for:				
Collection and distribution system	(1,329,387)	(94,022)	-	(1,423,409)
Equipment	(83,931)	(2,925)	-	(86,856)
Subtotal	(1,413,318)	(96,947)	-	(1,510,265)
Total capital assets being depreciated, net	2,820,208	(80,482)	-	2,739,726
Business-type activities capital assets, net	\$ 3,059,583	\$ (80,482)	\$ -	\$ 2,979,101

Depreciation expense was charged to governmental activities as follows:

General government	\$ 13,682
Public safety	3,442
Public works	17,059
Recreation and culture	15,895
Depreciation on capital assets held by internal service fund	31,626
Total governmental activities	\$ 81,704

NOTE 6 - LONG-TERM OBLIGATIONS:

At February 29, 2008, long-term obligations, other than compensated absences, are comprised of the following individual issue:

The Water and Sewer Fund has an outstanding balance of \$1,240,000 on the 1998 \$1,900,000, 2.25% Wastewater Treatment Improvement Project Revenue Bonds. The bonds are due in annual principal installments of \$85,000 to \$115,000, plus interest through April 2020.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM OBLIGATIONS (Continued):

Long-term obligation activity for the year ended February 29, 2008, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Compensated absences	\$ 39,800	\$ 60,342	\$ 49,542	\$ 50,600	\$ -
Business-type activities:					
Sewer Fund 1998 Bonds	\$ 1,330,000	\$ -	\$ 90,000	\$ 1,240,000	\$ 90,000

At February 29, 2008, debt service requirements, excluding compensated absences, are as follows:

<u>Year ended February 28</u>	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 90,000	\$ 26,888
2010	95,000	24,807
2011	95,000	22,669
2012	100,000	20,475
2013	100,000	18,225
2014-2018	530,000	56,258
2019-2020	230,000	5,176
Totals	\$ 1,240,000	\$ 174,498

All debt is secured by the full faith and credit of the Village.

NOTE 7 - TAX REVENUE:

Tax revenue is comprised of current property taxes (real and personal) levied during the year ended February 29, 2008. The following information is presented regarding the taxes levied concerning a major taxpayer:

	<u>Total tax revenue</u>	<u>Major taxpayer</u>	<u>Taxpayer percentage</u>
Current property taxes	\$ 575,548	\$ 133,611	23%

NOTE 8 - PAYABLES:

Payables as of year end of the Village's funds were as follows:

	<u>Accrued interest</u>
Proprietary funds:	
Water and Sewer Fund	\$ 11,600

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - SEGMENT INFORMATION - ENTERPRISE FUND:

Segment information for the Water and Sewer Fund, an enterprise fund, for the year ended February 29, 2008 is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues	\$ 273,466	\$ 244,094	\$ 517,560
Depreciation	49,031	47,916	96,947
Operating income	64,182	(26,672)	37,510
Change in net assets	74,940	(43,376)	31,564
Fixed asset additions	16,465	-	16,465
Net working capital	362,019	283,620	645,639
Total assets	1,353,991	2,407,094	3,761,085
Long-term debt	-	1,150,000	1,150,000
Total net assets	1,460,097	1,014,643	2,474,740

A major commercial customer accounts for revenues of \$200,372, which represents 40% of total water and sewer revenues for the year ended February 29, 2008.

NOTE 10 - PENSION PLAN:

The Village sponsors a defined contribution plan for all full time employees. Employees are allowed to contribute amounts subject to IRS limitations. The Village makes a matching contribution (not to exceed 5% of covered payroll) for all personnel who contribute to the plan. For the year ended February 29, 2008, the Village and covered employees contributed \$22,130 and \$32,406, respectively to the plan.

The Village has no administrative or fiduciary responsibilities over the plan or plan assets. Accordingly, activity and balances of the plan are not included in these financial statements.

NOTE 11 - CLAIMS ARISING FROM RISKS OF LOSS:

The Village is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability up to \$2,000,000, building contents, workers' compensation, and casualty are managed through purchased commercial insurance.

NOTE 12 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended February 29, 2008, is as follows:

Revenues	\$ 7,521
Expenses	<u>(7,630)</u>
Deficiency of revenues over expenses	<u>\$ (109)</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 13 - INTERFUND TRANSFERS:

The interfund transfer for the year ended February 29, 2008, is as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Local Street	\$ 35,000	General	\$ 35,000

This transfer moved unrestricted revenues, collected in the General Fund, to the Local Street Fund to contribute the required 50 percent match for street construction costs within the Local Street Fund.

NOTE 14 - PRIOR PERIOD ADJUSTMENT:

A prior period adjustment has been recorded in 2008 that resulted in a restatement of net assets. Net assets as of March 1, 2007, included in the government-wide financial statements, represent a restated balance as presented below. The following schedule identifies the nature and amount of the adjustment recorded.

	<u>Net assets</u>
	<u>Governmental</u>
	<u>activities</u>
Beginning of year, as previously reported	\$ 2,737,757
Prior period adjustment:	
Understatement of liability for compensated absences	(39,800)

REQUIRED SUPPLEMENTARY INFORMATION

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended February 29, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 523,900	\$ 523,900	\$ 557,333	\$ 33,433
Licenses and permits	19,100	19,100	26,744	7,644
State grants	215,148	215,148	208,112	(7,036)
Contributions from local units	26,200	26,200	26,031	(169)
Charges for services	21,500	21,500	28,109	6,609
Fines and forfeitures	2,000	2,000	942	(1,058)
Interest and rentals	30,652	30,652	20,315	(10,337)
Other	1,700	1,700	1,892	192
Total revenues	<u>840,200</u>	<u>840,200</u>	<u>869,478</u>	<u>29,278</u>
EXPENDITURES				
Legislative - Village Council	<u>11,900</u>	<u>11,900</u>	<u>9,209</u>	<u>2,691</u>
General government:				
President	1,320	1,320	1,082	238
Clerk	64,000	64,000	57,855	6,145
Treasurer	5,400	5,400	5,273	127
Hall and grounds	48,600	48,600	27,059	21,541
Financial administration	93,100	93,100	83,949	9,151
Insurance and bonds	170,900	170,900	158,082	12,818
Cemetery	<u>37,000</u>	<u>37,000</u>	<u>28,229</u>	<u>8,771</u>
Total general government	<u>420,320</u>	<u>420,320</u>	<u>361,529</u>	<u>58,791</u>
Public safety:				
Police protection	310,640	310,640	299,096	11,544
Crossing guards	<u>7,900</u>	<u>7,900</u>	<u>7,342</u>	<u>558</u>
Total public safety	<u>318,540</u>	<u>318,540</u>	<u>306,438</u>	<u>12,102</u>
Public works:				
Public works department	15,060	15,060	7,364	7,696
Sidewalks	36,400	36,400	29,794	6,606
Streets	<u>81,700</u>	<u>81,700</u>	<u>83,572</u>	<u>(1,872)</u>
Total public works	<u>133,160</u>	<u>133,160</u>	<u>120,730</u>	<u>12,430</u>

Village of Lawton

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended February 29, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	\$ 24,900	\$ 24,900	\$ 12,857	\$ 12,043
Recreation and culture:				
Parks and recreation	28,000	28,000	16,721	11,279
Museum	300	300	-	300
Civic betterment	6,800	6,800	4,058	2,742
Total recreation and culture	35,100	35,100	20,779	14,321
Capital outlay	14,600	14,600	14,062	538
Total expenditures	958,520	958,520	845,604	112,916
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(118,320)	(118,320)	23,874	142,194
OTHER FINANCING USES				
Transfer to Local Street Fund	(35,000)	(35,000)	(35,000)	-
NET CHANGES IN FUND BALANCES	(153,320)	(153,320)	(11,126)	142,194
FUND BALANCES - BEGINNING	662,506	662,506	662,506	-
FUND BALANCES - ENDING	\$ 509,186	\$ 509,186	\$ 651,380	\$ 142,194

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - Major Street Fund**

Year ended February 29, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 105,000	\$ 105,000	\$ 112,214	\$ 7,214
Interest	<u>15,000</u>	<u>15,000</u>	<u>14,734</u>	<u>(266)</u>
Total revenues	<u>120,000</u>	<u>120,000</u>	<u>126,948</u>	<u>6,948</u>
EXPENDITURES				
Public works:				
Construction	88,000	88,000	59,175	28,825
Administration	4,125	4,125	4,005	120
Routine maintenance	22,300	22,300	20,499	1,801
Winter maintenance	<u>19,800</u>	<u>19,800</u>	<u>19,055</u>	<u>745</u>
Total expenditures	<u>134,225</u>	<u>134,225</u>	<u>102,734</u>	<u>31,491</u>
NET CHANGES IN FUND BALANCES	(14,225)	(14,225)	24,214	38,439
FUND BALANCES - BEGINNING	<u>344,395</u>	<u>344,395</u>	<u>344,395</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 330,170</u>	<u>\$ 330,170</u>	<u>\$ 368,609</u>	<u>\$ 38,439</u>

Village of Lawton

BUDGETARY COMPARISON SCHEDULE - Library Fund

Year ended February 29, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 33,650	\$ 33,650	\$ 35,597	\$ 1,947
State grants	2,100	2,100	1,983	(117)
Contributions from local units	66,200	66,200	74,254	8,054
Fines and forfeitures	19,000	19,000	18,673	(327)
Interest	4,200	4,200	4,774	574
Other	<u>2,650</u>	<u>2,650</u>	<u>5,814</u>	<u>3,164</u>
Total revenues	<u>127,800</u>	<u>127,800</u>	<u>141,095</u>	<u>13,295</u>
EXPENDITURES				
Recreation and culture:				
Salaries and wages	61,500	61,500	56,426	5,074
Payroll taxes and fringe benefits	7,840	7,840	7,658	182
Office supplies	520	520	451	69
Operating supplies	3,200	3,200	2,020	1,180
Telephone	1,500	1,500	1,360	140
Electric	3,200	3,200	3,820	(620)
Heat	1,300	1,300	1,090	210
Custodial services	2,300	2,300	2,091	209
Repairs and maintenance	5,000	5,000	2,116	2,884
Building and equipment rental	1,140	1,140	1,096	44
Miscellaneous	1,300	1,300	730	570
Books, magazines, and periodicals	24,000	24,000	18,358	5,642
Audio and video cassettes	11,500	11,500	7,569	3,931
Memberships and dues	1,000	1,000	329	671
Education and training	1,000	1,000	695	305
Software	<u>1,500</u>	<u>1,500</u>	<u>560</u>	<u>940</u>
Total recreation and culture	127,800	127,800	106,369	21,431
Capital outlay	<u>3,200</u>	<u>3,200</u>	<u>3,145</u>	<u>55</u>
Total expenditures	<u>131,000</u>	<u>131,000</u>	<u>109,514</u>	<u>21,486</u>
NET CHANGES IN FUND BALANCES	(3,200)	(3,200)	31,581	34,781
FUND BALANCES - BEGINNING	<u>137,573</u>	<u>137,573</u>	<u>137,573</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 134,373</u>	<u>\$ 134,373</u>	<u>\$ 169,154</u>	<u>\$ 34,781</u>

SUPPLEMENTARY DATA

Village of Lawton**SCHEDULE OF ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS -****\$1,900,000 1998 Wastewater treatment improvement project bonds**

February 29, 2008

<i>Fiscal period</i>	<i>Interest requirements</i>		<i>Maturity date</i>	<i>Principal</i>	<i>Total requirements</i>
	<i>April 1</i>	<i>October 1</i>			
2009	\$ 13,950	\$ 12,938	04/01/09	\$ 90,000	\$ 116,888
2010	12,938	11,869	04/01/10	95,000	119,807
2011	11,869	10,800	04/01/11	95,000	117,669
2012	10,800	9,675	04/01/12	100,000	120,475
2013	9,675	8,550	04/01/13	100,000	118,225
2014	8,550	7,425	04/01/14	100,000	115,975
2015	7,425	6,244	04/01/15	105,000	118,669
2016	6,244	5,063	04/01/16	105,000	116,307
2017	5,063	3,828	04/01/17	110,000	118,891
2018	3,828	2,588	04/01/18	110,000	116,416
2019	2,588	1,294	04/01/19	115,000	118,882
2020	1,294	-	04/01/20	115,000	116,294
	<u>\$ 94,224</u>	<u>\$ 80,274</u>		<u>\$ 1,240,000</u>	<u>\$ 1,414,498</u>

July 31, 2008

To the Village Council
Village of Lawton

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lawton for the year ended February 29, 2008, and have issued our report thereon dated July 31, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 5, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Lawton are described in Note 1 to the financial statements. No new accounting policies were adopted, and except as follows, the application of existing policies was not changed during 2008. The Village recorded a prior period adjustment to correct its method of accounting for the liability for compensated absences. We noted no transactions entered into by the Village of Lawton during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Village's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.



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The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audits for the year ended February 29, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Lawton's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the Village of Lawton as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Lawton's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Village has not implemented a system of controls to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to achieve the objectives of recording revenue and expense accruals, the capitalization and depreciation of capital assets, and the presentation of financial statement disclosures. This is a recurring comment. The Village has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

This communication is intended solely for the information and use of the Village Council of the Village of Lawton and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.